



# **PERFORMANCE AUDIT REPORT**

## **Management of Public Television Station KOD in Bunker Hill**

**A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit  
State of Kansas  
November 1987**

# **Legislative Post Audit Committee**

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## **Legislative Division of Post Audit**

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## **PERFORMANCE AUDIT REPORT**

### **MANAGEMENT OF PUBLIC TELEVISION STATION KOD IN BUNKER HILL**

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#### **OBTAINING AUDIT INFORMATION**

This audit was conducted by Leo Hafner and Mary Beth Green, Senior Auditors, of the Division's staff. If you need any additional information about the audit's findings, please contact Mr. Hafner at the Division's offices.

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# MANAGEMENT OF PUBLIC TELEVISION STATION KOD IN BUNKER HILL

## Summary of Legislative Post Audit's Findings

KOD receives General Fund money from the Kansas Public Broadcasting Commission to help finance its operations. In addition to the station's grant for operations, the 1987 Legislature appropriated \$400,000 for fiscal years 1988 and 1989 for the State's share of the cost of constructing a satellite station in Lakin. The first \$100,000 was appropriated for fiscal year 1988 but is contingent on federal support for the project, local matching requirements, and a plan to restructure the station's governing board. KOD has historically received more State funds than the other public television stations in Kansas and has had a history of weak financial controls. In 1983, Legislative Post Audit identified problems with the station's financial management practices. The Department of Administration's Municipal Accounting Section followed up on that audit and identified additional weaknesses in 1984. This audit addressed the following question:

**Is public television station KOD following sound financial management and control practices?** Station management has implemented some of the financial controls recommended in previous audits, but other important controls still have not been put into place. A larger concern is the station's financial condition, which has deteriorated over the past few years. KOD has consistently spent more money than it has taken in, and according to its fiscal year 1988 budget will use up all its cash balances in the current year. If this occurs, the station will have to drastically reduce its expenditures in the coming fiscal year. If significant unforeseen expenses arise, the station could run short of cash before the current fiscal year is complete.

The station's certified public accountant responded to the draft report on behalf of the station. In general, this response disagreed with the auditors' assessment of the station's financial condition. Major points in that response were as follows (in italics), together with Legislative Post Audit's comments:

- If equipment depreciation and an unrealized loss on marketable securities are removed from the station's statement of operations for fiscal year 1987, the station would actually show a small profit for that year.* Depreciation is part of the cost of doing business, however, and the station's equipment will eventually have to be replaced. Unless provisions are made to replace equipment, no funds will be available when it needs to be replaced.
- The report's conclusions about the station's financial condition would be more accurate if KOD were a mature corporation, but it is a young entity early in its development stages.* However, the auditors' analyses focused primarily on the current year's budget and recent financial history. As the response itself indicates, ongoing revenues and expenses for the station as it now exists have stabilized over the last several years.
- The response takes issue with the conclusion that KOD would be unable to pay its bills if expenditures were not reduced.* As noted in the report, the station's fiscal year 1988 budget projects no ending cash balance for the current fiscal year. In contrast, the accountant's response projects an ending cash balance this year of \$157,585. To arrive at this figure, however, the accountant simply estimated that the station would spend \$191,000 less than it had budgeted.



## **MANAGEMENT OF PUBLIC TELEVISION STATION KOD IN BUNKER HILL**

Public television station KOD in Bunker Hill is operated by the Smoky Hills Public Television Corporation and serves central and northcentral Kansas. Like other public television stations in the State, KOD receives General Fund money from the Kansas Public Broadcasting Commission to help finance its operations. However, KOD has historically received more State funds than the other stations and also has a history of financial management problems. In 1983, the Legislative Division of Post Audit identified problems with the station's financial management practices. The Department of Administration's Municipal Accounting Section followed up on that audit and identified additional weaknesses in 1984.

Since fiscal year 1986, the Legislature has required the station to raise funds from non-governmental sources to qualify for all its State operating funds. In addition to the station's operating grant, the Legislature has appropriated \$400,000 in 1988 and 1989 for KOD to construct a satellite station in Lakin. That appropriation is contingent on federal support for the project, local matching requirements, and a plan to restructure the station's governing board. In July 1987, the Governor appointed a five-member task force to examine the governance and bylaws of the Smoky Hills Public Television Corporation. To gain further assurance that financial controls are improved, the Legislative Post Audit Committee directed the Legislative Division of Post Audit to conduct a performance audit of KOD. This audit addresses the following question:

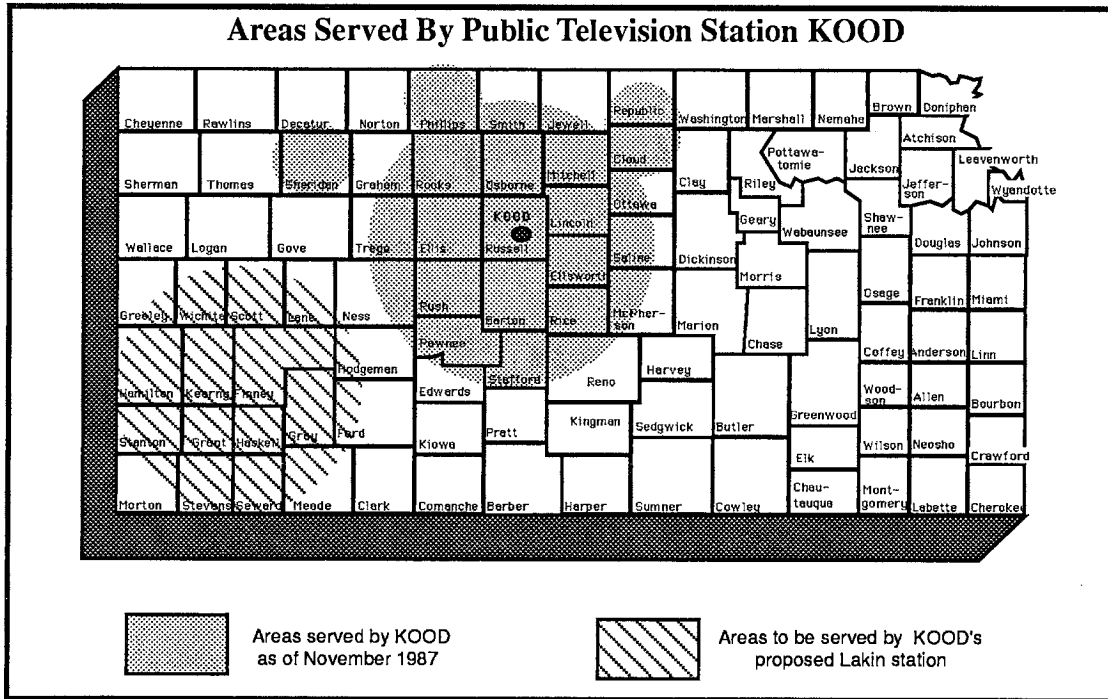
### **Is public television station KOD following sound financial management and control practices?**

To answer this question, the auditors interviewed KOD officials, reviewed recent financial reports, and interviewed the certified public accountants who conducted the station's fiscal year 1987 audit. On a sample basis, the auditors also examined the station's financial records of receipts, expenditures, property, and investments. They verified that sufficient local funds were generated to match State appropriations for the Lakin project and examined minutes of the KOD Board of Trustees' meetings. Finally, the auditors contacted officials at other public television stations serving the State. The auditors' findings are discussed in detail after the following overview of the station.

### **An Overview of Public Television Station KOD**

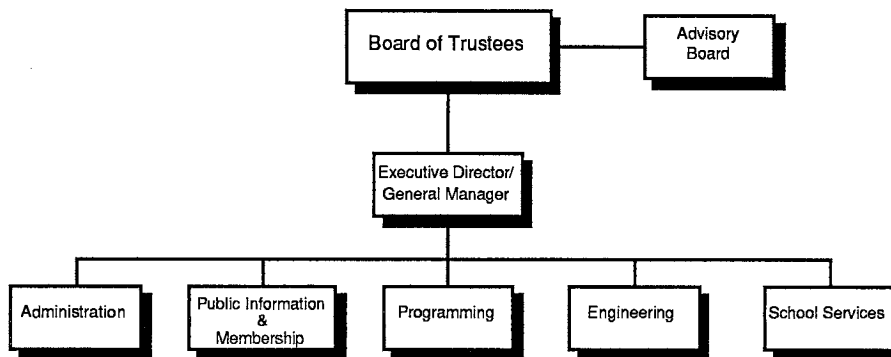
Public television station KOD began broadcasting in November 1982. It currently serves approximately 99,000 households in central and northcentral Kansas. KOD's Channel 9 in Bunker Hill serves most of this area, including Hays, Russell, Great Bend, and Salina. The station also has three remote translators which serve areas around Hoxie, Phillipsburg, and Concordia. KOD's coverage areas are highlighted on the map at the top of page two. The station broadcasts public television programs daily from 7:00 a.m. to 12:00 midnight.

## Areas Served By Public Television Station KOOD



The bylaws of Smoky Hills Public Television Corporation provide for a 15-member Board of Trustees and a separate Community Advisory Board. The Board of Trustees is responsible for management of the station, and the Advisory Board is responsible for assessing the effectiveness of the station's programming and community services. The bylaws also provide for an Executive Director/ General Manager who is responsible to the Board and supervises the station's daily operations. As of November 1987, KOOD had 18 employees, including full- and part-time personnel. KOOD's organization chart is presented below.

### Organization of Smoky Hills Public Television Corporation



KOOD is governed by a 15-member Board of Trustees and has a community advisory board to review programming and services. The Executive Director/ General Manager supervises 17 other employees in five departments: administration, public information and membership, programming, engineering, and school services.

In fiscal year 1987, KOOD generated revenues and support of approximately \$850,000 and spent more than \$1 million, resulting in a net loss of about \$243,000. The station's 1987 audited income statement is presented below. In general, KOOD's major sources of revenue include grants from the federal and State governments, local memberships and contributions, and underwriting fees. Major expenses include general and administrative costs, programming expenses, and depreciation.

**Smoky Hills Public Television Corporation  
Audited Statement of Operations  
For the Year Ended June 30, 1987**

	<u>Amount</u>	<u>% of Total</u>
<b><u>Support and Revenue</u></b>		
Corporation for Public Broadcasting Grants	\$ 287,722	33.8 %
State of Kansas Grant	213,899	25.2
Other Grants	2,151	.2
Memberships and Contributions	110,993	13.0
Underwriting Fees	71,292	8.4
Donated Services and Contributions	58,466	6.9
Interest and Investment Income	32,514	3.8
School Services Income	29,433	3.5
Broadcasting Fees	18,527	2.2
Rental Income	14,077	1.7
Other Income	11,215	1.3
	<u>\$850,289</u>	<u>100.0 %</u>
<b><u>Expenses</u></b>		
General and Administrative Expenses	\$ 358,647	33.7 %
Depreciation and Amortization	227,659	21.4
Program Services Expenses	161,985	15.2
Engineering Expenses	132,996	12.5
Public Relations Expenses	58,542	5.5
Donated Services and Contributions	58,466	5.5
School Services Expenses	38,132	3.6
Transmitter and Building Expenses	27,990	2.6
	<u>\$ 1,064,417</u>	<u>100.0 %</u>
<b>Support and Revenue Over (Under) Expenses</b>	<b>\$ (214,128)</b>	
Other Income (Loss) <sup>(a)</sup>	\$ (28,853)	
<b>Net Income (Loss)</b>	<b>\$ (242,981)</b>	

<sup>(a)</sup> This amount represents a reduction in the value of the station's investments at June 30, 1987, because the market value on that date was less than the original cost.

KOOD is currently planning to extend its signal to western Kansas through a 100,000-watt satellite station and tower located in Lakin. KOOD officials estimate this expansion will have start-up costs of more than \$1.1 million, and will provide new service to 39,000 households and improved service to 16,250 households. The

station plans to fund the expansion with a \$610,000 federal grant, a \$400,000 State grant, \$100,000 from the localities that will be served, and \$41,000 from KOOD.

The Legislature has appropriated \$100,000 from the State Economic Development Fund for fiscal year 1988 and \$300,000 for fiscal year 1989. The \$100,000 appropriated for 1988 is contingent on federal support for the project, local matching requirements, and a plan to restructure the station's governing board. The State Finance Council must also approve the release of these funds to KOOD.

### **Is Public Television Station KOOD Following Sound Financial Management and Control Practices?**

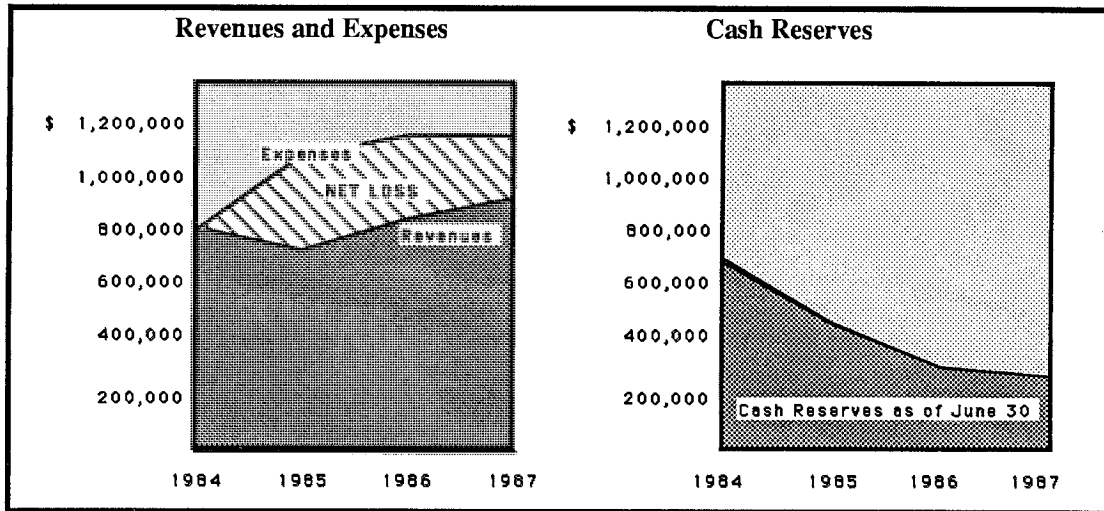
In general, the auditors found that the station could soon face a financial crisis. Over the last several years the station has consistently spent significantly more money than it has collected. In three years, its cash reserve has dwindled from about \$628,000 to \$249,000. The current year's budget once again plans for expenditures to far exceed revenues, causing the station to use up the rest of its available cash. Unless something is done to significantly increase revenues or curb spending, KOOD will run out of cash early in fiscal year 1989. If significant unanticipated expenditures occur this fiscal year, cash could be exhausted even sooner. The station is attempting to generate additional revenues by expanding its viewer base with a satellite station to be located in Lakin, Kansas. This will be done with State and federal grant funds and with local contributions. However, it is unlikely that these additional revenues will be sufficient to avert the station's serious financial problems.

Further complicating the station's financial picture is the fact that the station lacks strong accounting controls. Although it has implemented some controls recommended in previous audits, the station has not put other controls into place or some that have been implemented were ineffective. The auditors also found that the station's Board of Trustees has not taken as active a role as needed. These and other findings are discussed in more detail in the sections that follow.

### **KOOD Is Facing a Financial Crisis**

The auditors' review of budget documents and other financial records at public television station KOOD indicates that unless expenditures for fiscal year 1988 are reduced or revenues are increased, sometime between now and early in fiscal year 1989 the station could be unable to pay its bills.

**The station has consistently spent more money than it has generated, using cash reserves to absorb the losses.** As of June 30, 1984, the station had a cash reserve of about \$628,000. For fiscal years 1985 through 1987 the station spent considerably more money than it was able to generate, resulting in losses totaling \$826,755 for those years. The accompanying charts show the difference between revenues and expenses in each of those years, as well as the cash balances at the end of each year. Losses incurred by the station have resulted in a steady drain on its cash balance, reducing it to about \$249,000 by the end of fiscal year 1987.



The station's budget for the current year once again indicates that expenditures will far exceed revenues, causing the station to use up the rest of its available cash. The budget approved by the station's Board of Trustees in February 1987 anticipated that the station would spend \$1,049,926 for the fiscal year beginning in July 1987. That budget was subsequently reduced to \$1,026,235 in March to reflect anticipated reductions in funding such as a decrease in the State's grant to the station for operations. A copy of that budget is contained in Appendix A.

The station's budgeted revenues for the fiscal year total \$783,650, or \$242,585 less than expenditures. Once again, this deficiency will be made up by drawing on the station's cash reserves. If budgeted revenues and expenses for the current fiscal year are accurate, the station will have a cash balance of about \$6,500 at the end of the current fiscal year.

Unless something is done to reduce spending or increase revenues, the station will be unable to pay its bills. Without its cash reserve to rely on for fiscal year 1989, the station will have to match its expenditures to its revenues. It has not done so in past years. Based on historical patterns, this would require revenues to be increased or expenditures to be reduced by 25 percent or more in a single year.

That critical point could come sooner, however, because some of the station's revenues for the current year may be lower than projected, and its expenditures in the first part of the fiscal year are already exceeding estimates. The following examples illustrate potential problems on the revenue side:

- The station's budget shows that it will receive \$50,000 from the State that is contingent on the station generating \$50,000 more in matching income from non-governmental sources than it did last year. The station was unable to generate sufficient funds to qualify for all of the contingency portion of its grant in fiscal 1987, and it does not appear that the station will be able to generate sufficient revenues to fully match this year's grant.

- The station's budget includes \$2,000 a month in interest earnings. In each of the first two months of the current year, however, the station has fallen about \$650 short of this projection. With bank balances likely to decline throughout the year (see Appendix B), it appears unlikely that the station will receive the budgeted interest earnings.

Expenditures for the first two months of the fiscal year have already exceeded budget estimates by about \$9,700. During this period, the station spent about \$14,000 for equipment and repairs and for land associated with the Lakin project that was not included in the budget.

Something that hampers the station's management and its Board of Trustees in making sound decisions about the station's financial future is the lack of a clear picture of its current financial status. The station has been without a business manager since early October, and its financial information has not been brought up to date since then. With nearly half the fiscal year complete, it is important to have more up-to-date accounting information to determine if this financial trend is continuing and what corrective actions might be necessary.

**Savings in the planned construction cost of the satellite station in Lakin may delay KOOD's financial crisis for the short-term.** The station is expanding its signal to unserved areas of southwest Kansas by developing a satellite station in Lakin, near Garden City. This move will add service to an estimated 39,000 households not currently receiving public television and should increase membership contributions to KOOD.

When the budget was originally prepared, the station's share of the cost of the project was estimated to be \$100,000. That share has since been revised downward to about \$41,000, lowering anticipated expenditures by about \$59,000. Although the Lakin project will eventually increase revenues to KOOD by adding another 39,000 households to its viewer base it will have little immediate impact because it will not begin broadcasting until mid- to late-1988.

The Legislature has appropriated \$400,000 for the expansion to Lakin. The first \$100,000 of that amount will be provided in fiscal year 1988 upon proof that the federal government has provided a firm commitment of funds, local contributions of at least \$100,000 have been collected, and the station's governing board has been restructured to provide broader representation.

Bank records and contribution lists the auditors reviewed showed that Southwest Public Television, a local steering committee responsible for collecting the local share of funding has collected more than \$118,000 to date toward the construction of the station in Lakin. In addition, a five-member task force appointed by the Governor in July 1987 has completed work reviewing the governance of the station and is in the process of drafting recommendations for changes affecting the governing board.

## **A Lack of Strong Accounting Records and Controls Further Complicates the Station's Financial Picture**

The auditors reviewed KOOD's accounting controls and examined a sample of accounting records. They also followed up on recommendations made in a 1983 audit conducted by Legislative Post Audit and a 1984 review conducted by the Department of Administration's Municipal Accounting Section. They found that KOOD still lacks some accounting controls and records. Although it has implemented some controls recommended in previous audits, the station has not put other controls into place or some that have been implemented were ineffective. When the auditors visited the station in November 1987, however, the business manager's position at KOOD had been vacant for about one month and the remaining employees generally were not familiar with accounting procedures. As a result, the auditors could not always identify the impact of this vacancy on practices and procedures.

**KOOD officials have implemented some controls recommended during past reviews.** For example, in 1984 the Department of Administration's Municipal Accounting Section determined that the station had eight different checking and savings accounts that should be consolidated. Balances in these accounts ranged from \$300 to more than \$55,000. As of November 1987, the station had consolidated its cash into two interest-bearing checking accounts—one for payroll expenditures and another for other operating expenditures. Other recommendations that have been put into place include obtaining fidelity bond coverage for employees with access to funds and developing a receipts journal, payroll computation sheets, and a petty cash fund.

**Some previously recommended financial controls and procedures apparently have not been established.** In 1984, the Municipal Accounting Section recommended that the station develop a detailed list of fixed assets for financial control and information, as well as for insurance purposes. Although the station's certified public accounting firm maintains a summarized depreciation schedule for KOOD, station officials still could not provide detailed accounting records for approximately \$2.4 million in property and equipment. The station's chief engineer maintains an equipment list including some of the necessary information, but accounting personnel apparently have not established the recommended list. Other recommendations that have not been implemented include development of an investment schedule and a complete general journal.

The auditors' examination of a sample of 11 bills paid during September 1987 also showed that supporting invoices for five bills were either not marked as approved for payment or were not cancelled after payment as required by the station's procedures. The auditors also found that several unendorsed checks were kept in an unlocked desk, exposing them to loss or theft. Both areas have been the subject of previous recommendations.

**Accounting records were not always complete and well-organized.** The auditors reconciled the station's most recent cash flow statement with its detailed accounting records. This reconciliation was hampered because transaction dates, par-

ticularly the years, often were not included in the records. In addition, although the auditors were able to find records for the station's cash balance, they could not identify records for other asset and liability accounts such as equipment, accounts receivable, and accounts payable.

A certified public accounting firm conducted a financial audit of the station for fiscal year 1987. Representatives from the firm told the auditors that firm employees spent considerable time working with KOOD personnel to establish an accounting system and to record transactions for June through December 1986. When the fiscal year ended, firm employees returned to conduct the audit and found that the station's business manager had not used the established system for January through June 1987. Again the accounting firm's employees spent considerable time recording transactions and working with KOOD personnel prior to actually conducting their audit.

### **In Several Areas That Could Impact KOOD's Financial Situation, the Board of Trustees Has Not Taken As Active a Role as Needed**

These areas include setting and enforcing investment policy, and making sure the advisory board meets often enough to fulfill the requirements of federal law.

According to Board minutes, one member of the Board was designated as the station's investment counselor several years ago, but was given no guidance other than to earn the highest possible return with the highest level of safety. Current Board members were apparently surprised to find that this person had not only invested the station's cash in some speculative mutual funds, but had also received a reported \$1,548 in commissions from those investments.

The Board has also not been diligent about ensuring that the station's Advisory Board meets often enough to fulfill the requirements of the Public Telecommunications Financing Act. Under that Act, the Advisory Board is supposed to meet at least once a year. The station's bylaws state that the Advisory Board should meet three times a year. The auditors could find no documentation that the Advisory Body has had an official meeting since 1981. The lack of such meetings could further jeopardize the station's financial situation if it resulted in a cut off of funds from the Corporation for Public Broadcasting.

### **Conclusion**

Public television station KOOD still needs to implement several accounting controls recommended in earlier audits. But the larger problem appears to be the station's overall financial condition. Without prompt action to reduce spending or raise revenues, it appears that the station will experience serious financial difficulties by fiscal year 1989, and possibly in the months ahead. Before the timing and magnitude of any spending cuts can be fully assessed, the station will need to employ competent accounting help to obtain an up-to-date picture of the station's financial situ-

ation. The station's Board of Trustees also needs to take a more active role in directing the station's investments and making sure that the station is in compliance with all the requirements of State and federal laws.

### **Recommendations**

1. To avoid a pending financial crisis, public television station KOOD's Board of Trustees should do the following:
  - a. ensure that station management hires competent help on an immediate basis to implement proper accounting controls and records and to bring accounting records up to date.
  - b. use that up-to-date accounting information to assess the current financial position of the station and make whatever adjustments may be necessary in the current year to ensure that the station has adequate cash balances to begin fiscal year 1989.
  - c. adopt a realistic budget for fiscal year 1989 that will more closely match expenditures with anticipated revenues.
2. To ensure that the station does not jeopardize its funding by its lack of compliance with the Public Telecommunications Financing Act, the Board of Trustees should see that the station's Advisory Board holds official meetings often enough to comply with the law.
3. To ensure that the station's funds are invested in a prudent manner to earn the best possible return, the station's Board of Trustees should do the following:
  - a. develop a written investment policy.
  - b. appoint a strong investments committee to oversee adherence to that policy.



## APPENDIX A

### Smoky Hills Public Television Corporation Fiscal Year 1988 Budget

<b>Estimated Revenues</b>	<b>Amount</b>
Corporation for Public Broadcasting Grants	\$ 314,309
State of Kansas Grant	175,000
Other Grants	12,000
Memberships and Contributions	128,570
Underwriting Fees	64,000
Interest Income	24,000
School Services Income	34,208
Broadcast Operations	13,527
Rental Income	13,698
Video Tape Service	3,050
Kids Club	1,000
Miscellaneous Income	<u>288</u>
 Total Estimated Revenues	 \$783,650
 Estimated Cash Reserves, July 1, 1987	 <u>242,585</u>
 Total Cash Available	 <u>\$1,026,235</u>

#### **Estimated Expenses**

Salaries	\$ 280,209
Capital Purchases	162,483
General and Administrative Expenses	185,579
Programming Expenses	173,309
Engineering Expenses	44,450
Public Information Expenses	26,700
Production	10,350
Transmitter/Buildings	32,920
Studio Building Expenses	40,525
School Services Expenses	28,263
Development Expenses	<u>41,447</u>
 Total Estimated Expenses	 <u>\$1,026,235</u>



## APPENDIX B

### KOOD's Estimated Cash Flow, Fiscal Year 1988

	<u>Revenues</u>	<u>Expenses</u>	<u>Surplus or (Shortfall)</u>
July	\$ 14,115	\$ 62,336	\$ (48,221)
August	34,615	53,752	(19,137)
September	139,515	76,752	62,763
October	21,993	82,972	(60,979)
November	172,869	245,067	(72,198)
December	39,941	114,693	(74,752)
January	37,879	61,402	(23,523)
February	19,689	46,477	(26,788)
March	195,320	100,057	95,263
April	21,261	51,385	(30,124)
May	17,005	71,127	(54,122)
June	<u>69,448</u>	<u>60,215</u>	<u>9,233</u>
Total	<u>\$783,650</u>	<u>\$1,026,235</u>	<u>\$(242,585)</u>



## **APPENDIX C**

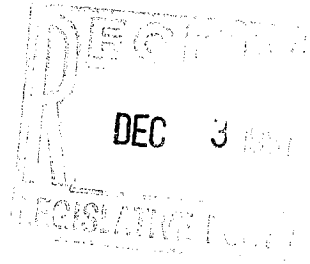
### **Agency Response**

On November 20, 1987, a copy of the draft audit report was sent to Public Television Station KOOD in Bunker Hill for review and comment. The Station's written response is included in this appendix.

DRAKE & CROPP, C.P.A.'S  
CERTIFIED PUBLIC ACCOUNTANTS  
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LEE I. CROPP, C.P.A.  
THOMAS L. DRAKE, C.P.A.

December 1, 1987

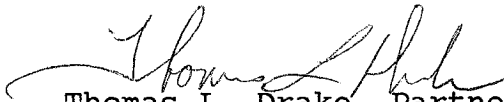


Ms. Meredith Williams  
Legislative Post Auditor  
109 West 9th, Suite 301  
Mills Building  
Topeka, Kansas 66612-1285

Dear Ms. Williams:

Enclosed is a response to the draft of the performance audit report on Management of Public Television Station Kood in Bunker Hill. As I discussed with Barbara Hinton in your office, we did not receive the report until Tuesday afternoon, November 22. With that being the week of Thanksgiving, we were unable to have our response to you by Tuesday December 1. If you have any questions regarding the response, please let me know.

Very truly yours,

  
Thomas L. Drake, Partner

TLD/rmd

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THOMAS L. DRAKE, C.P.A.

SMOKY HILLS PUBLIC TELEVISION CORPORATION  
RESPONSE TO POST AUDIT REPORT  
NOVEMBER 30, 1987

I am a Certified Public Accountant and partner of the accounting firm Drake and Cropp, in Russell, Kansas. I worked for a National Certified Public Accounting firm in Omaha, Nebraska for 3 years and for a local Certified Public Accounting firm in Denver, Colorado for 2 years. I have been manager of the Russell office for 7 years. Our firm has been auditing the financial statements of Smoky Hills Public Television Corporation for 6 years. I have been actively involved with the audit each year and have a good understanding of the history and financial condition of the station during this period. I was asked to respond to the legislative post audit committee to provide some insight as to the development of the station from a financial perspective as well as direction for the future.

HISTORICAL ANALYSIS

Introduction

Appendix A provides the cash balances for the previous eight years and a summary of the sources and uses of working capital since the inception of the corporation. I believe an analysis of this information is useful for third parties to gain a better understanding of how the corporation has evolved from its inception to the current operations. I believe this insight from a historical perspective, will make the financial information more meaningful.

The following is a summary of increases or decreases in cash balances since the inception of the corporation along with annual capital expenditures.

Year ended <u>June 30</u>	Increase (Decrease) <u>In Cash</u>	Capital <u>Expenditures</u>
1980	\$ 1,139,984	\$ 22,325
1981	\$ 190,207	\$ 40,674
1982	\$ (124,094)	\$ 1,338,478
1983	\$ (709,255)	\$ 622,618
1984	\$ 131,069	\$ 168,537
1985	\$ (204,802)	\$ 133,808
1986	\$ (96,836)	\$ 61,652
1987	\$ (78,019)	\$ 36,052

## SMOKY HILLS PUBLIC TELEVISION - CONTINUED

This summary shows that the corporation is still early in the formative stages. The initial equipment purchases were made during the fiscal years ended June 30, 1982, and June 30, 1983 with capital expenditures of \$1,961,096 during those years. These costs were for the purchase of the building and production equipment for the primary operation located at Bunker Hill, Kansas.

### Translator Stations

The stated purpose and primary objective of the corporation, from its inception, was to provide public television viewing to western Kansas. In conforming with this objective, the corporation was authorized to construct remote translator stations in Hoxie, Phillipsburg, and Concordia in 1984. Federal and State grants to fund these translator stations also indicates the commitment to that objective. The project began during the year ended June 30, 1984 and was completed during the years ended June 30, 1985, and 1986. The capital expenditures in the summary above are the result of these projects.

### Phase III

Although the corporation had as its primary objective to provide western Kansas with public television from the beginning, the course in reaching that objective was not clear. At this time, the course has evolved into a 3-phase project. The first two phases have been completed in that central and northcentral Kansas is currently being served through the station in Bunker Hill and through translators in Hoxie, Phillipsburg and Concordia. The third phase is to extend its signal to western Kansas through a 100,000-watt satellite station and tower located in Lakin, Kansas. This will provide new service to 39,000 households and improved service to 16,250 households. This is being done through a \$610,000 Federal grant, a \$400,000 State grant, a \$100,000 contribution from localities that will be served, and \$41,000 from the corporation.

SMOKY HILLS PUBLIC TELEVISION - CONTINUED

Response to Legislative Post Audit

In reviewing the draft of the post audit report, it appears that much of the financial data may have been presented out of context. After reviewing the summary of changes in working capital at Appendix A along with the historical analysis, it becomes apparent that the corporation is in its early stages of development, especially if the Lakin project is completed. The following is an analysis of the financial condition of the station along with a response to the post audit report.

Statement of Operations For The Year Ended June 30, 1987

The post audit report correctly presents the 6-30-87 Statement of Operations on page 3. The report cites the "loss of about \$243,000" on page 3 and later highlights in bold letters, "the station has consistently spent more money than it has generated" on page 4. I believe that both of these comments were taken out of context and need further explanation.

The Statement of Operations for the year ended June 30, 1987, does reflect a loss of about \$243,000. The report fails to point out that of this amount \$227,659 was a charge against income for depreciation. Another view of the results of operations for that period can be seen on Appendix A. You will note that the corporation reports an operating income of \$13,531 before depreciation and unrealized loss on marketable securities. I would view this as a very positive development from a purely operational standpoint. In addition, it appears that revenues and expenditures have stabilized. Expenditures have risen by 2.5% over the prior year and receipts increased 6.7%. The increase in revenue is primarily due to increased operating grants of \$36,745.

Page 4 of the report discusses a reduction of cash reserves from 1984 to 1987 of \$628,000. This information fails to take into consideration the fact that the translator stations were being built during that period. Appendix A provides that the corporation had operating losses before depreciation of \$60,122 and \$17,136 for the years ended June 30, 1985, and 1986, respectively.

## SMOKY HILLS PUBLIC TELEVISION - CONTINUED

The reason for these losses is that operating costs increased while the translator stations were under construction. The revenue from the new viewers lagged these operating costs. You will note that the loss decreased from \$60,122 in 1985 to \$17,136 in 1986, and to income of \$13,531 in 1987.

With this analysis, it does not appear that the corporation is facing a financial crisis. As pointed out previously, the corporation has been in a maturing process for the past seven years. The graphs on page 5 of the report are technically correct, but need the historical analysis to draw accurate conclusions.

### Fiscal Year 1988 Budget

Budgets are prepared as projections based on what the preparer perceives to be the anticipated result of operations in the future. The projections are based on assumptions used by the preparer. Each individual will draw their own conclusions for a projection based upon known facts and the assumptions used. Based upon my understanding of the facts and the assumptions that I would use, my projections would be different than those presented.

It appears that an attempt to be realistic in budgeting for revenues was made. The budget allows for an \$8,173 decrease in revenue. It appears realistic after taking into consideration that revenues increased 6.7% in the prior year. I would anticipate that the projection is still high even taking into consideration previous year increases. I would expect revenues to be \$750,000 primarily due to economic conditions. I am taking a conservative approach to the projection.

The estimated expenditures includes \$162,483 of capital expenditures. Based on capital expenditures of \$36,000 in 1987, I believe that this budget item will probably be closer to \$35,000 in 1988. If the budget for capital expenditures is removed, the estimated expenses is \$863,752. When taking into consideration the fact that operating expenses increased only \$18,834 or 2.5% from 1986 to 1987, I find it unlikely that expenses will increase by \$85,460 or 11% in 1988. Based on this, I would expect results from operations for 1988 as follows:

SMOKY HILLS PUBLIC TELEVISION - CONTINUED

Estimated revenues	\$ 750,000
Estimated expenses	<u>(800,000)</u>
Operating loss	(50,000)
Capital expenditures	<u>(35,000)</u>
Excess expenditures over revenues	(85,000)
Cash balance - July 1, 1987	<u>242,585</u>
Projected cash balance - June 30, 1988	\$ 157,585 =====

Direction of the Station

The post audit report states in bold letters on page 5 "Unless something is done to reduce spending or increase revenues, the station will be unable to pay its bills." If an individual were to review the corporations financial information and the entity were a mature corporation, this may be the conclusion that would be reached. However, the facts in this case are different.

1. The corporation is a young entity early in its development stages. It has operated only one year at its current capacity. Increased revenues in 1987 allowed an operating income before depreciation. The statement made in the report seems rather drastic after reviewing the facts.
2. The entity is moving into the third phase of its development. The Federal and State governments authorized this development by providing development grants. It has been understood from the beginning that the primary objective of the corporation is to provide public television to western Kansas. If this objective has changed since the authorization of the grants for the Lakin project, someone should inform the corporation board and management.

Since this is a young developing corporation, there is no doubt that the expenditures will be rising in light of the Lakin Project. If the project is to be completed, the size of the entity will grow. Should the legislature decide public television in western Kansas is not a priority, management should be informed. At that time, it will be necessary to redirect the resources and energy of the corporation.

## SMOKY HILLS PUBLIC TELEVISION - CONTINUED

### Accounting Records and Controls

#### List of Fixed Assets

The post audit report states that the station has not developed a detailed list of fixed assets. The report refers to a summarized depreciation schedule. As the station was being built, it was difficult to identify fixed assets because of the lack of accounting records. Purchases in excess of \$2,000,000 were made in 1982 and 1983. These purchases consisted of nuts and bolts to construct several \$35,000 pieces of equipment. You can imagine the difficulty in identifying each item. Since that time, an attempt has been made to specifically identify each fixed asset acquisition. I believe this area has been addressed.

#### Business Manager

To draw a conclusion regarding the accounting records and controls, one must look at the history and development of the position of the business manager. At the time of the first post audit review in 1983 the accounting records were maintained by a local accounting firm. The general ledger and journals were not brought current until time to conduct the audit. The manager and I met with an individual from the firm early in 1983 to stress the importance of timely financial information. When doing the audit late in 1983, we experienced the same problem. Because of this, the station purchased data processing equipment and hired a college graduate to perform the accounting functions in-house. He was unqualified and left after a year. He was replaced by a member of the staff. Management worked with her for two years in an attempt to allow her to learn the duties of business manager. Finally in October she was dismissed as she was unable to grasp the duties. Management has since offered a job to an individual with an accounting degree with excellent experience. We expect the replacement to begin work within two weeks.

I can identify with the frustrations of an auditor with the post-audit team in trying to track transactions. At the same time, management of the station has experienced the same frustration in finding a qualified person as business manager. Because of this he is taking the time to assure that a qualified replacement is found for business manager.

SMOKY HILLS PUBLIC TELEVISION - CONTINUED

Conclusion

There are two primary areas of concern at the station at this time that directly affect the financial condition. It is imperative that a qualified person be found with the skills to perform the duties as business manager. I believe that this issue is being addressed and the replacement will be working within two weeks.

The second is not as easy and objective as the first. It is important for the board and management to know the direction that the legislature wants to take. If they are not committed to the Lakin project, management must be informed to redirect the energy and resources of the station. The operating budget will have to be redrafted and plans will be made to operate at the current capacity. If, however, the legislature is committed to the Lakin project, there will be another period of development, whereby, the financial picture will be a bit cloudy due to revenues lagging expenditures. Whichever direction is taken, it is important that all parties communicate and work towards that common goal.

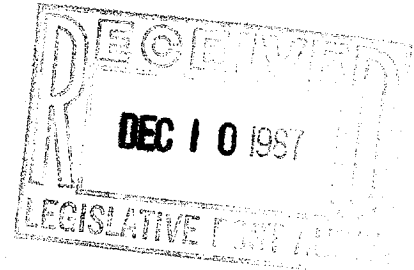
APPENDIX A

SMOKY HILLS PUBLIC TELEVISION CORPORATION  
Cash Balances and Summary of Changes in Working Capital  
For The Years Ended June 30,

	<u>1987</u>	<u>1986</u>	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>
CASH AND INVESTMENTS	\$248,947	\$326,966	\$423,802	\$627,916	\$496,847	\$1,206,102	\$1,330,196	\$1,139,989
	=====	=====	=====	=====	=====	=====	=====	=====
Summary of Changes in Working Capital								
Support and revenue								
Grants - operational	\$503,772	\$467,027	\$462,731	\$584,604	\$ 263,996	\$ 115,500	\$ 155,870	\$ 70,000
Grants - equipment	-	-	6,637	59,722	33,546	87,705	578,327	1,085,543
School services	29,433	28,676	28,283	8,907	8,844	5,651	-	-
Memberships	105,439	102,885	73,181	75,134	76,409	859	-	-
Business memberships	5,554	9,741	-	-	-	-	2,198	314
Investment income	32,514	60,059	55,847	55,685	76,725	172,362	153,459	36,843
Underwriting	71,292	39,775	24,834	17,940	-	-	-	-
Broadcasting	18,527	17,542	5,228	-	-	-	-	-
Rental income	14,077	10,894	-	-	-	-	-	-
Other	11,215	5,723	2,211	2,147	1,360	316	27	705
	<u>791,823</u>	<u>742,322</u>	<u>658,952</u>	<u>804,139</u>	<u>460,880</u>	<u>382,393</u>	<u>889,881</u>	<u>1,193,405</u>
Operating expenses								
Program services	161,985	141,246	33,697	26,441	21,413	6,289	-	-
Public relations	58,542	64,501	-	-	-	-	-	-
Transmitter and building	27,990	31,955	-	-	-	-	-	-
Engineering	132,996	128,660	144,756	113,595	61,399	12,618	-	-
General and administrative	358,647	358,235	510,700	312,263	141,502	123,233	65,171	46,766
School services	38,132	34,861	29,921	20,356	10,579	-	-	-
	<u>778,292</u>	<u>759,458</u>	<u>719,074</u>	<u>472,655</u>	<u>234,893</u>	<u>142,140</u>	<u>65,171</u>	<u>46,766</u>
Operating income (loss) before depreciation	13,531	(17,136)	(60,122)	331,484	225,987	240,253	824,710	1,146,639
Unrealized loss on marketable securities	(28,853)	-	-	-	-	-	-	-
Net income (loss) before depreciation	(15,322)	(17,136)	(60,122)	331,484	225,987	240,253	824,710	1,146,639
Capital expenditures	(36,052)	(61,652)	(133,808)	(168,537)	(622,618)	(1,338,478)	(40,674)	(22,325)
Decrease in working capital	\$(51,374)	\$(78,788)	\$(193,930)	\$(162,947)	\$(396,631)	\$(1,098,225)	\$ 784,036	\$1,124,314
	=====	=====	=====	=====	=====	=====	=====	=====

December 9, 1987

Mr. Meredith Williams  
Legislative Division of Post Audit  
109 West 9th Suite 301  
Mills Building  
Topeka, Kansas 66612



Dear Mr. Williams,

In reference to the recently completed performance audit report by Legislative Post Audit, since KOOD is in the process of hiring a new Business Manager, I have asked Tom Drake, C.P. A. with the firm of Drake & Cropp to respond to some of the suggestions in the performance audit.

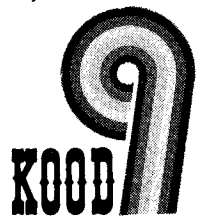
I would like to call your attention to the number of employees referred to in the report, we do list 18 on the payroll sheet, but only eleven are full time, we are required to employ 10 full time to qualify for federal funds, five are part-time, and two are work-study.

The station estimates about 50,000 households are in our viewing area. Some of the households are still held captive by other public stations which were broadcasting prior to KOOD going on the air. They, therefore, secured positions on some cable companies in KOOD's viewing area.

KOOD does anticipate once Lakin is on line and broadcasting as Channel 3 additional households and they may have been the reference in the report, if so, the 99,000 figure would be about right with Lakin broadcasting as a satellite station.

And finally, in reference to the full \$50,000.00 state match. I received weekly reports regarding our progress from the Business Manager, and the station according to the figures which we were working with, had secured the full share. The station had included \$10,000.00 in additional school support with the understanding that the state's intent was to increase and improve local support. The Kansas Broadcasting Commission after review disallowed \$10,000.00 additional school services money because of the provision in the bill which prohibited government money from being included as part of the match. If we had known we were still deficient, I feel confident the station could have secured the additional \$10,000.00.

In my opinion the station has done a little better than I expected. I feel the station is viable and essential. We all work at various jobs, and



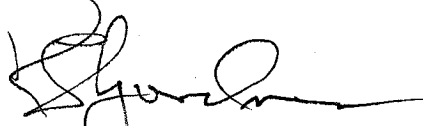
Post Office Box 9  
Bunker Hill, Kansas 67626  
Phone (913) 483-6990

the station has provided opportunities for events, communities and individuals to experience pride and achievement. KOOD is important for people and communities to address problems, share heritage, and celebrate life in the Twentieth Century. Last week the station had a pledge drive, and raised about \$40,000.00; produced a Big 8 Volleyball game which was distributed in Nebraska and Oklahoma, and tomorrow we will produce a High School Triangular Wrestling Tournament from Great Bend for local broadcast.

In Western Kansas our economy seems to be headed straight down, Baxter Travenol in Hays, an employer of 700, has closed. There have been a number of bank failures and farm bankruptcies. Still, KOOD has improved in all areas of revenue, and decreased in all areas of expenses, but more importantly I feel Western Kansas needs the station because of the potential and hope which the station does represent for our broadcast communities and viewers.

Thanking you for your time and consideration.

Sincerely,



Kenneth F. Gardner  
Vice-President and General Manager  
KOOD Channel 9

mlm: KFG